

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8161

BILL NUMBER: SB 605

DATE PREPARED: Feb 24, 1999

BILL AMENDED: Feb 23, 1999

SUBJECT: Children's Health Insurance Program.

FISCAL ANALYST: Alan Gossard

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FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill establishes the Children's Health Insurance Program (CHIP) within the Office of the Secretary of Family and Social Services (FSSA) to provide health insurance coverage to uninsured children. The bill also establishes the Children's Health Policy Board to coordinate aspects of existing children's health programs.

Medicaid Expansion: The bill provides that an individual who is less than 19 years old and who is a member of a family with an annual income that is less than 150% of the federal income poverty level (FPL) is eligible for Medicaid. (This provision makes permanent the Medicaid expansion that became effective July 1, 1998, and is set to expire June 30, 1999.)

CHIP Program: This bill also requires the CHIP program to use certain aspects of the infrastructure used by the Medicaid managed care program for children to the greatest extent possible. The bill provides eligibility requirements that a child and the child's family must meet in order to enroll in the program. Among these requirements are that children must be from families with incomes between 150% and 200% of FPL. It also provides that providers enrolled under the Medicaid program and providers enrolled under CHIP are considered providers for both programs. The bill also provides a specific package of benefits for the program. The bill also provides that the Select Joint Committee to Oversee Medicaid has authority to oversee all matters related to the CHIP program.

The bill also requires the Office administering the program to do the following: (1) Employ electronic claims administration, payment, and data collection systems that meet specific criteria. (2) Contract with an independent entity to conduct evaluations of the program every two years. (3) Establish a demonstration project in a community to provide mental health services in a managed care setting to participants in the program.

Medicaid Advisory Committee: The bill adds two parent advocates to the Medicaid Advisory Committee.

Select Joint Committee to Oversee Medicaid: The bill extends the Select Joint Committee to Oversee Medicaid for three years.

Medicaid Fraud Provisions: The bill also makes Medicaid fraud and insurance fraud Class C felonies in any case where the fair market value of the offense is at least \$100,000. (Current law provides that Medicaid fraud is a Class C felony if the fair market value of the claim or payment that is the subject of the fraud is at least \$50,000.)

The bill also makes conforming changes.

Effective Date: Upon passage; July 1, 1999; January 1, 2000.

Explanation of State Expenditures: (Revised) The total costs of the Medicaid expansion and the CHIP program relative to the available federal funding are summarized in the final table, below.

The enrollment and cost estimates were developed by the Lewin Group for the Governor's Children's Health Insurance Advisory Panel. The Lewin Group produced three sets of estimates based on the assumptions in the following table.

Assumptions Used in Development of Three Cost Scenarios.

Low Enrollment and Cost Estimates	Mid-Range Enrollment and Cost Estimates	High Enrollment and Cost Estimates
Low Crowd-out *	Mid-range Crowd-out *	High Crowd-out *
Outreach has no impact	Outreach has no impact	Outreach increases enrollment by 15%
Current unemployment rates continue	Current unemployment rates continue	Unemployment rates increase from 3.4% to 6.8%
High family premium contributions are used	Low family premium contributions are used	Low family premium contributions are used
* Crowd-out means the number of families or employers who drop private insurance coverage to take advantage of the public insurance program.		

Costs of Medicaid Expansion: This bill makes permanent the Medicaid expansion for children from families with incomes up to 150% of FPL. This expansion was set to expire June 30, 1999. (On June 30, 1999, the eligibility levels will revert to 150% of FPL for infants, 133% of FPL for children aged 1 through 5, and 100% of FPL for children aged 6 through 18.) The cost estimates below are for the cost of benefits and administration net of estimated family premium contributions. The estimates also include a 24-month "ramp-up" period to fully phase in the program.

Estimated Net Costs for Permanent Medicaid Expansion to 150% FPL (with State and Federal Shares).

Assumptions	FFY1999	FFY2000	FFY2001	FFY2002
Low-Range	\$27.79 M	\$45.98 M	\$50.66 M	\$52.44 M
(State \$/Fed \$)	(7.50M / 20.29M)	(12.41M / 33.57M)	(13.68M / 36.98M)	(14.16M / 38.28M)
Mid-Range	\$35.25 M	\$58.32 M	\$64.25 M	\$66.50 M
(State \$/Fed \$)	(9.52M / 25.73M)	(15.75M / 42.57M)	(17.35M / 46.90M)	(17.96M / 48.54M)
High-Range	\$56.44 M	\$93.38 M	\$102.89 M	\$106.49 M
(State \$/Fed \$)	(15.24M / 41.20M)	(25.21M / 68.17M)	(27.78M / 75.11M)	(28.75M/77.74M)
Source: The Lewin Group for the Governor's Children's Health Insurance Advisory Panel, Nov. 1998.				

Costs of CHIP Program: The following represents cost estimates based on the three sets of enrollment and cost assumptions for the CHIP program specified by the Children's Health Insurance Advisory Panel. Coverage is for those children from families with incomes between 150% and 200% of FPL. Although the bill is not specific about the benefit package to be offered, the benefit package described by the CHIP Advisory Panel is used for estimating costs. The cost estimates include direct services, as well as administrative costs. Program benefits may be adjusted by the Children's Health Policy Board based on available program resources. The Office of CHIP is to contract with an independent organization to evaluate the Children's Health Insurance Program once every two years.

An adjustment was made to the estimates provided in the final report of the CHIP Advisory Panel to account for a requirement in this bill that treatment limitations or financial requirements on the coverage of services for mental illness may not be imposed if similar provisions are not imposed on coverage for services for other illnesses. Estimated costs of mental health parity range from 0.8% of premiums for tightly managed health maintenance organizations (HMOs) up to 7% of premiums for fee-for-service coverage (Substance Abuse and Mental Health Services Administration (SAMHSA), U.S. Department of Health and Human Services, 1998). The lower estimate is applied to the CHIP costs of the low-range scenario and the 7% increase is applied to the high-range estimates. The most probable cost lies between these estimates. An average of these costs is applied to the mid-range estimates. An estimate of the costs for mental health services for a children's health program produced by the American Academy of Pediatrics also falls within the range estimated by SAMHSA.

Estimated Net Costs for CHIP: Children between 150% and 200% FPL (with State and Federal Shares).

Assumptions	SFY2000	SFY2001	SFY2002
Low-Range	\$13.07 M	\$22.15 M	\$24.99 M
(State \$/Fed \$)	(3.53M / 9.54M)	(5.98M / 16.17M)	(6.75M / 18.24M)
Mid-Range	\$25.64 M	\$43.46 M	\$49.04 M
(State \$/Fed \$)	(6.92M / 18.72M)	(11.73M / 31.73M)	(13.24M / 35.80M)
High-Range	\$32.22 M	\$54.59 M	\$61.60 M
(State \$/Fed \$)	(8.70M / 23.52M)	(14.74M / 39.85M)	(16.63M / 44.97M)
Source: The Lewin Group for the Governor's Children's Health Insurance Advisory Panel, Nov. 1998.			

Federal CHIP Funding: The CHIP program was authorized by Congress in 1997. Unused allotments may be rolled over to the next year. Each year's allotment remains available for three years, after which the unused allotment is returned for redistribution to other states. The CHIP program funding also comes with an enhanced federal match of about 73%, compared with the current federal match under the Medicaid program of about 61%. The reimbursement for expenditures under the CHIP program, as well as the Medicaid expansion described above, will be made at the enhanced rate of 73%.

Estimated Net Program Costs Relative to CHIP Funding: FFY1999 Through FFY2002.

Assumptions		FFY1999	FFY2000	FFY2001	FFY2002
Low-Range	Carryover from Prev. Yr	95.16 M *	164.21 M	194.18 M	199.50 M
	Current Year Allotment	97.09 M	97.09 M	102.41 M	78.47 M
	Total Program Costs **	28.04 M	50.01 M	66.06 M	75.31 M
	Returned to Feds	-	17.11 M	31.03 M	21.78 M
	Surplus / (Deficit)	164.21 M	194.18 M	199.50 M	180.88 M
Mid-Range	Carryover from Prev. Yr	94.64 M *	155.82 M	186.04 M	193.54 M
	Current Year Allotment	97.09 M	97.09 M	102.41 M	78.47 M
	Total Program Costs **	35.91 M	66.87 M	94.91 M	111.52 M
	Returned to Feds	-	-	-	-
	Surplus / (Deficit)	155.82 M	186.04 M	193.54 M	160.49 M
High-Range	Carryover from Prev. Yr	93.17 M *	132.78 M	124.96 M	85.46 M
	Current Year Allotment	97.09 M	97.09 M	102.41 M	78.47 M
	Total Program Costs **	57.48 M	104.91 M	141.91 M	163.18 M
	Returned to Feds	-	-	-	-
	Surplus / (Deficit)	132.78 M	124.96 M	85.46 M	0.75 M
Source: The Lewin Group for the Governor's Children's Health Insurance Advisory Panel, Nov. 1998. * Estimated carryover from FFY1998 arising from the one-year Medicaid expansion. ** Represents total costs (both state and federal shares). State Share = 27%, Federal Share = 73%.					

Committees and Boards: A 14-member Advisory Committee for Children With Special Health Needs is established by the bill for the purpose of advising and assisting the Children's Health Policy Board, also established by this bill, in the development, coordination, and evaluation of policies that have an impact on children with special health needs. The committee is composed of both state employees and lay members.

A six-member Children's Health Policy Board is also established by the bill to direct policy coordination of children's health programs. The Board is to develop a comprehensive children's health policy; coordinate aspects of existing children's health programs; and collect, analyze, and disseminate data. The six members are state employees.

Children's Health Insurance Program Fund: The Children's Health Insurance Program Fund is also established by the bill. The Fund is for the purpose of paying expenses related to the CHIP program and Medicaid expenses under Title XXI. Funds do not revert to the General Fund at the end of a fiscal year. The

Fund includes amounts appropriated by the General Assembly and by the federal government, as well as fees, charges, gifts, grants, and donations.

Contracting with Community Entities: This bill also has a provision that the Office of Medicaid Policy and Planning may, in administering Medicaid managed care programs, contract with community entities, including private entities to manage outreach, the provision of services, consumer education, and public health education. Any fiscal impact would depend on administrative action and the specific contracts that may result.

Demonstration Project: The Office is to establish a demonstration project to provide mental health services in a managed care setting to CHIP participants. There would likely be some additional administrative costs to conducting a demonstration project. However, there would also likely be savings in service costs by providing mental health services in a managed care setting. The fiscal impact will depend upon the scope and design of the project.

Claims Payment System: The bill also requires that the Office employ electronic claim administration, payment, and data collection systems that meet specifications. There would potentially be additional development and implementation costs associated with a separate system than the claims payment system currently used in the Medicaid program. These costs have yet to be determined. The U.S. Health Care Financing Administration (HCFA) regional office has indicated that federal financial participation would be available for development and implementation of a second claims payment system at the enhanced federal cost-sharing rate of 73%.

Select Joint Committee to Oversee Medicaid: The bill extends the Select Joint Committee to Oversee Medicaid for three years. This Committee has 12 legislative members and would cost about \$2,000 per meeting if all members attend. Under current Legislative Council resolution, interim committees are allocated \$9,000 per year.

Medicaid Advisory Committee: The bill adds two parent advocates to the Medicaid Advisory Committee. Additional costs would be paid from the budget of the Office of Medicaid Policy and Planning.

Explanation of State Revenues: See Explanation of State Expenditures, above, regarding federal funding for the CHIP program.

Felony Provisions for Fraud: The bill also makes Medicaid fraud and insurance fraud Class C felonies if the fair market value of the offense is at least \$100,000. (Current law provides that Medicaid fraud is a Class C felony if the fair market value of the claim or payment that is the subject of the fraud is at least \$50,000.) Class C felonies are punishable by 2 to 8 years of imprisonment and a maximum \$10,000 fine. Fines are deposited into the Common School Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Family and Social Services Administration

Local Agencies Affected:

Information Sources: Final Report of the Governor's Children's Health Insurance Advisory Panel,
November 1998.